

**ATTACHMENT 2**  
**SOCIO-ECONOMIC AND POLITICAL INFORMATION**

## ATTACHMENT 2a

### POLITICAL SITUATION IN SOUTHERN AFRICA

Similar to their uneven levels of socio-economic development and performance, the countries in southern Africa are diverse in their political systems and the prevailing levels of political stability, which are posing particular challenges for cooperation and integration in the region. Political systems range from a traditional monarchy to constitutional democracies on a continuum from de facto one-party rule, unclear division between legislative, administrative and judicial functions and state-control of the media to decentralized political, fiscal and administrative functions, widespread participation by civil society and media independence. In general, democracies are young and fragile, with many of the countries in a stage of democratic nation building, with the occasional set-back as witnessed by constitutional amendments and clamp-downs on freedom of speech.

Over the past few years some countries in the sub-region have indeed witnessed consolidation of a democratic culture, good governance, the rule of law and respect for human rights. This is reflected in a number of positive developments, such as the holding of 'free and fair' national and / or sub-national elections and the smooth transfer of power between ruling parties such as in Mauritius and changes in leadership, such as in Botswana and South Africa. Notwithstanding these positive developments, international political risk perceptions of the sub-region have deteriorated due to a number of factors.

- In **Angola**, the long-running civil war is no nearer to a military solution, as UNITA still has the financial capability to sustain the conflict in the foreseeable future. However, after long refusing to speak with armed UNITA again, the prospects for some form of dialogue between the government and UNITA have improved since the death of the UNITA leader, Jonas Savimbi, and his second-in-command. Currently, large swathes of the country, dislocated by decades of war, are under no effective administrative control, while there is growing disquiet among the urban poor about the government's inability to address the deepening socio-economic crisis. Donors and International Finance Institutions, including the World Bank, are increasingly involved in post-conflict reconstruction. Apart from the civil strife within Angola, over the past three years, the country has also been drawn into conflicts in Congo-Brazzaville and the DRC. The deterioration in relations between Angola and Zambia may see further clashes along the Angola-Zambia border, although a formal war with Zambia seems unlikely.
- The internecine war in the **DRC**, which has drawn in countries in southern Africa and as far away as Chad and Libya. The DRC has enjoyed very little by way of a meaningful constitutional environment since its independence in 1960. The country was governed under a one-party system for most of the time from 1965 to 2001. Integration of this vast territory has been incomplete even under colonial rule and the society is organized around local and regional nodes rather than being a nation state. To all intents and purposes there is no government or administrative system in the generally accepted sense of the term. The inadequacy of transport and communications infrastructure makes the establishment of centralized or provincial administration beyond the major centers problematic, leaving such governance and administration to traditional leaders and their control structures. Due to the war, the DRC government administers roughly half of the country, i.e. the triangle between Kinshasa, Mbandaka and Lubumbashi, with the rest of the territory under control of various sub-national movements along ethnic or socio-economic fault lines. The DRC war has actually been five wars and linked-zones of conflict, each with its own logic, involving Angola, Burundi, Rwanda, Uganda and Sudan. In addition, at times the wars have drawn in countries such as Chad and Libya, while some SADC member States, notably Zimbabwe and Namibia, apart from Angola, have provided troops and other military assistance to the DRC Government on a bilateral basis.

Since the end of January 2001, when Joseph Kabila was sworn in as president, the prospects for implementing the Lusaka peace accord have improved considerably. He has been taking a vastly

different tone than his late father in favoring dialogue with the DRC's neighbors, countries such as France, Belgium and the USA, and the UN in order to bring the peace process back on track. This is auguring well for regional and international initiatives to find a diplomatic solution to the conflict. The record of the DRC's new government particularly within the first few months has been one of delivering on most of its commitments. Political activity has been freed, the diamond sector was liberalized, restrictions were lifted on the use and circulation of foreign exchange, new mining and investment codes are being prepared, respected technocrats have been put in place in the main economic posts in cabinet and dialogue has been opened with the IMF and World Bank. Without a political solution to the war in the DRC, and others linked to it, there is a real danger that this conflict(s) will cause immeasurable damage to the economies of the central and southern African regions. Regional efforts to find political solution to the DRC's problems are ongoing and countries such as Botswana and SA have been particularly prominent in these efforts.

- The political and economic crisis in **Zimbabwe** is closely linked to the 20-year one-party rule and persona of its current President. Although being a constitutional democracy, Zimbabwe has been, *de facto*, a one-party rule since independence in 1980. The presidency has wide-ranging powers in terms of the 1980, including intervening in the electoral process. What has resulted is the mind-set of a one-party state, with all the institutions applicable to that. Over the past three years, a range of erratic political and economic decisions has brought about a realignment of political forces, growing economic hardship that is assuming regional and ethnic dimensions, and mounting public dissatisfaction. Although attempts to strengthen the presidency by way of further amendment to the constitution were frustrated in a referendum at the beginning of 2000, the head of state still enjoys massive powers. President Mugabe's candidacy for the March 2002 Presidential election seemed to have been at the heart of the political and economic turmoil afflicting Zimbabwe. The run-up period to the Presidential election saw heavy-handed clampdowns on incidents of 'public disorder' or dissidents from the ruling party, 'fast-tracking' of land resettlement initiatives, and political expediency in the economic management process. These forces are still contributing to a delay in Zimbabwe's economic recovery.
- Other incidents which have contributed to the deteriorating political risk perceptions of the sub-region, include the following:
  - The constitutional and political turmoil between 1993 and 1998 in the **Kingdom of Lesotho** which culminated in an appeal to other southern African states for assistance, leading to military involvement of SADC (by SA and Botswana) in Lesotho during September 1998. This incident has set a precedent in regional peacekeeping efforts, which raised the question of how similar requests would be handled in future. In Lesotho, the constitutional dispensation is now under review. An Interim Political Authority – a multiparty organ – has been set up in 1998 to assist in electoral reform and preparations for the June 2002 elections.
  - The amendment to **Namibia's** constitution to allow President Nujoma to stand for a third term in office (the ruling party has stated that Mr. Nujoma would not seek a fourth term as President though). This amendment was seen by *inter alia* the investor and donor community as a serious abrogation of Namibia's commitment to the principles of constitutional democracy. These perceptions were exacerbated by the subsequent parliamentary discussion about the removal from the constitution of provisions for the payment of compensation for land acquired for redistribution. The current favorable prospects for implementation of the Lusaka Peace Accord in the DRC augur well for the withdrawal of Namibian troops from that country.
  - In **Zambia**, since 1998, the controversial amendments that have been made to the constitution of this young democratic system and political actions against political opponents, which have pointed to a slide back towards authoritarianism. However, President Chiluba, under pressure from domestic, regional and international role-players, did not seek a third term as President and leadership changed hands peacefully towards the end of 2001.
  - Pressures to modernize **Swaziland's** political system, in a milieu characterized by restrictions on trade union and political party activity. Swaziland has been without a constitution since

1973. Its absolute monarch, King Mswati III has appointed a constitutional commission to investigate and recommend on the democratic modernization of the traditional monarchy, but proceedings have been protracted, while its contents seem to call for a permanent ban on opposition politics and an expansion of royal powers. The royal house is increasingly being tested through occasional incidents of civil discontent with the slow pace and direction of political transformation.

On the sub-regional level, the intervention of some SADC members in Lesotho, on the appeal of this country, to re-establish law and order in its territory, together with the SADC diplomatic initiatives to resolve the conflict in the DRC, indicates that regional security has become an important part of the SADC cooperation arrangement. In contrast, regional security matters have also been serving as a disintegrating force and source of regional tension, with the military interventions by Angola, Zimbabwe and Namibia in the DRC. These were seen from within the regional context as bilateral decisions, rooted in the then unresolved conflict over the autonomy of the SADC Organ for Politics, Defense and Security. From 1994, when SA acceded to SADC till the beginning of 2001, the regional institutional structuring of political, defense and security issues turned into a long and acrimonious disagreement between:

- those (mainly Zimbabwe, whose Head of Government was the Chair of the Frontline States) arguing that an institutional mechanism to deal with such issues should function under separate chairmanship from SADC and on the same flexible and informal basis as the Frontline States operated prior to the end of apartheid rule in South Africa. This implies that such an institutional mechanism would, in fact operate parallel to SADC, but would be a nominal part of SADC; and
- those (mainly South Africa) arguing that the SADC Treaty does not provide for an institutional mechanism on politics, defense and security to be separately constituted under a separate chair and with a mandate separate from that of SADC.

Thus, the 1996 effort to formalize these issues within a SADC Organ for Politics, Defense and Security, was again abandoned in 1997 in order to avoid ongoing negative fall-outs from the dispute on the Organ. However, the March 2001 Extraordinary Summit on the Rationalization and Review of SADC has decided to bring the political arm of SADC within the folds of the Treaty institutions, thereby renewing the efforts and resolve to attend to matters of regional security and politics. The Organ will deal with issues such as the following: military, peacemaking, peacekeeping and peace enforcement; conflict prevention, management and resolution; crime prevention; intelligence; foreign policy; disaster management; disaster management and human rights, indicating the depth and breadth of regional cooperation on these matters. In August 2001, all but one member signed the long-awaited Protocol on Politics, Defense and Security Cooperation. Related Protocols signed at the time are those on: Control of Firearms, Ammunition and other Related Materials, and on Corruption, while that on Combating Illicit Drug Trafficking were signed already in 1996.

**Box A.2.1: Objectives of the SADC Protocol on Politics, Defense and Security Cooperation**

- Protect the people and safeguard the development of the Region against instability arising from the breakdown of law and order, intra-state conflict, inter-state conflict and aggression;
- Promote political cooperation among State Parties and the evolution of common political values and institutions;
- Develop common foreign policy approaches on issues of mutual concern and advance such policy collectively in international fora;
- Promote regional coordination and cooperation on matters related to security and defense and establish appropriate mechanisms to this end;
- Prevent, contain and resolve inter -and intra-state conflict by peaceful means;
- Consider enforcement action in accordance with international law and as a matter of last resort where peaceful means have failed;
- Promote the development of democratic institutions and practices within the territories of State parties and encourage the observance of universal human rights as provided for in the Charters and Conventions of the organization of African Unity and United Nations respectively;
- Consider the development of a collective security capacity and conclude a Mutual Defense pact to respond to external military threats;
- Develop close cooperation between the police and state security services in order to address cross border crime and promote a community based approach to domestic security;
- Observe, and encourage State parties to implement United Nations, African Union and other international Conventions and treaties on arms control, disarmament and peaceful relations between states;
- Develop peacekeeping capacity of national defense forces and coordinate the participation of State parties in international and regional peacekeeping operations; and
- Enhance regional capacity in respect of disaster management and coordination of international humanitarian assistance.

## MACROECONOMIC, FINANCIAL, TRADE &amp; SOCIAL INFORMATION

Table A.2.1: SADC Countries: Population and Basic Economic Indicators, 1970-2000

Countries	Population (million)	Income, GNP per capita (\$U.S.), Atlas Method	ECONOMY					
			Nominal GDP (million \$U.S.)	Real GDP / capita (1995 \$U.S.)	Investment/ GDP (%)	Savings/GDP (%)	Exports +Imports/GDP (%)	
<b>Angola</b>								
1970	5.59	NA	NA	NA	NA	NA	NA	NA
1980	7.02	NA	NA	723	NA	NA	NA	NA
2000	12.72	270 (a)	8600	521	33	NA	NA	101*
<b>Botswana</b>								
1970	0.64	160	100	590	42	18	NA	80*
1980	0.91	1230	1100	1678	37	34	NA	101
2000	1.60	3630	5600	3896	22	16	NA	49*
<b>Congo, Dem. Rep.</b>								
1970	20.27	240	4900	400	15	12	NA	24
1980	27.01	630	14400	313	10	10	NA	26
2000	51.39	110 (b)	8700	139	12	12	NA	40*
<b>Lesotho</b>								
1970	1.06	110	100	226	10	-28	NA	NA
1980	1.35	490	400	364	37	-52	NA	112
2000	2.15	550 (a)	900	514	78	-19	NA	107*
<b>Malawi</b>								
1970	4.52	60	300	121	26	11	NA	48
1980	6.18	190	1200	160	25	11	NA	47
2000	11.04	170	1900	158	17	3	NA	60*
<b>Mauritius</b>								
1970	0.83	280	200	1190	10	11	NA	61
1980	0.97	1240	1100	1802	21	10	NA	84
2000	1.18	3900	4800	4419	25	23	NA	84*
<b>Mozambique</b>								
1970	9.40	NA	NA	NA	NA	NA	NA	NA
1980	12.10	280 (c)	3500	166	6	-11	NA	28
2000	17.58	220 (a)	3900	202	31	6	NA	35*
<b>Namibia</b>								
1970	0.79	NA	NA	NA	NA	NA	NA	NA
1980	1.03	NA	2200	2214	31	38	NA	121
2000	1.74	1890 (a)	3200	2130	27	14	NA	90*
<b>Seychelles</b>								
1970	0.05	370	20	2852	NA	NA	NA	65
1980	0.06	2110	150	4882	38	27	NA	61
2000	0.08	9920	460	7313	34	14	NA	74*
<b>South Africa</b>								
1970	22.09	790	17900	4100	23	19	NA	38
1980	27.58	2540	80500	4620	23	31	NA	54
2000	42.80	3090	128800	3925	16	19	NA	40*
<b>Swaziland</b>								
1970	0.42	240	100	784	23	32	NA	NA
1980	0.57	970	600	1046	30	6	NA	156
2000	1.05	1400	1200	1401	13	25	NA	201*
<b>Tanzania</b>								
1970	13.69	NA	NA	NA	NA	NA	NA	NA
1980	18.58	NA	NA	NA	NA	NA	NA	NA
2000	33.70	260	9000	193.4	18	5	NA	25*
<b>Zambia</b>								
1970	4.19	440	1800	699	28	45	NA	80
1980	5.74	630	3900	584	23	19	NA	66
2000	10.09	320	3400	396	19	8	NA	51*
<b>Zimbabwe</b>								
1970	5.26	390	1900	607	18	18	NA	38
1980	7.01	950	6700	620	17	14	NA	9
2000	12.11	690	7200	653	2	5	NA	64*

Source: World Bank SIMA Database

Notes: (a) stands for 1999, (b) stands for 1998 and (c) stands for 1982. \* means data for 1999.

## SADC Countries: Economic Structure and Growth Performance

## Box A.2.2: Economic Structure

**Contribution of agriculture to GDP**

In the 1960s, agriculture was the main source of output in many SADC countries. Agriculture's value added represented more than one-third of GDP in Lesotho and Swaziland, almost 30% of GDP in Botswana, and more than 40% of output in Malawi (See Table 3). Since the mid-1970s, the output structure has changed drastically in most of the countries. Agriculture's contribution shrunk in favour of industry and services. Botswana, Lesotho, Mauritius, and Swaziland represent the most striking examples of this evolution. The discovery of diamonds and the development of a diamond-based industry in Botswana have resulted in an increase in the share of industry in GDP to 46% in the late 1990s compared with 31% in 1970. In the meantime, agriculture contribution to GDP fell from 28% in 1970 to 4% in 1998. In Lesotho and Swaziland where the formation of output is derived in large part from industry and services, the formation of important agro-industry and tourism sectors are the underlying factors explaining the changing pattern. In the particular case of Mauritius, an important tourism-based industry, along with the export processing zone, has changed the economic structure from a sugar based-economy to a manufacturing economy. It is important to note that, with the exception of SA, Mauritius is the only SADC country that has developed a significant manufacturing sector. In 1998, one quarter of its output stemmed from manufacturing value added.

**Contribution of Mining to GDP**

SADC countries produce and export a number of mining commodities, including chromite, cobalt, diamonds, gold, manganese, copper, platinum, uranium and other industrial minerals and mining is the backbone of most national economies. Angola produces petroleum, diamonds, iron ore, phosphates, copper, gold, bauxite, and uranium. Botswana exports diamonds, copper, iron ore, and silver. Malawi is endowed with unexploited deposits of uranium and produces coal and bauxite while Mozambique's natural resources include coal, titanium, and natural gas. Namibia is the fourth-largest exporter of non-fuel minerals in Africa and the fifth-largest producer of uranium in the world. Namibia is also rich in gems and minerals and produces high quality diamonds and gold mines, while exporting copper, zinc, and lead. SA is a producer of a variety of natural resources, including gold, gem diamonds, coal, iron ore, uranium, platinum, and natural gas. Tanzania exports tin phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas, and nickel. Zambia's sub-soil is rich in copper, cobalt, zinc, lead, coal, emeralds, gold, silver and uranium; the country also has hydropower potential as do both Tanzania and Zambia. Like Tanzania, Zimbabwe produces iron ore, coal, and gold and is rich in chromium ore, asbestos, nickel, vanadium, lithium, tin, and metals. The DRC is exceptionally endowed with mineral resources including copper, cadmium, petroleum, and diamonds. Overall, mining represents an important source of foreign exchange earnings, output formation and employment within the region. In 2000, it accounted for nearly 60% of the region's foreign exchange earnings equivalent to 10% of GDP and about five percent of formal employment. With regard to mining commodities' exports, SADC countries' shares of the international market are relatively important and vary between 10 to 45%.<sup>1</sup>

**Contribution of manufacturing to GDP**

The contribution of manufacturing sector to GDP is still insignificant in many countries with the exception of South Africa and Mauritius. This situation reflects the number of constraints that the sector faces. The production costs are relatively high due to the prices of working and investment capital, high lending rates and high utility tariffs. Also, the shortage of skilled and qualified workers explains the weak competitiveness of many countries and the slow growth of the manufacturing sector. In particularly the land-locked countries, high transaction costs associated with transport and, often compounded by poor economic infrastructure, also explain the poor performance of the manufacturing sector.

**Table A.2.2: Share of Manufacturing Sector to GDP (In percent)**

Country	1992	1993	1994	1995	1996	1997	1998	1999
Angola	12.5	5.7	4.9	4.0	3.4	4.4	6.5	NS
Botswana	4.0	4.9	4.5	4.9	5.0	4.9	4.8	NS
Lesotho	12.5	14.6	13.8	15.2	15.3	15.7	17	16.6
Malawi	15.0	11.8	17.4	16.1	14.2	13.6	13.2	NS
Mauritius	12.5	23.2	23.3	23.7	24.2	24.4	24.7	25.0
Mozambique	11.3	15.5	11.2	13.3	14.5	15.4	14.7	9.8
Namibia	7.4	13.2	12.5	12.4	10.1	14.2	NA	16.5
South Africa	25.0	23.5	23.4	24.3	23.7	23.9	23.7	18.2
Swaziland	NS	27.4	27.6	27.8	25.8	25.9	NA	NS
Tanzania	8.1	7.5	7.4	7.2	7.4	6.9	NA	8.3
Zambia	36.0	26.4	24.7	9.9	11.8	11.8	12	10.7
Zimbabwe	20.1	21.0	19.1	19.2	15.7	15.4	15.2	NS

Source: Official SADC Trade, Industry and Investment Review, 1997-2001.

Note: NA: Data not Available; NS: Share insignificant between 0 and  $\pm 0.5$

**Contribution of tourism to GDP**

The southern African region is endowed with abundant natural resources, cultural diversity, and eco-tourism that make it potentially attractive destination for tourists. The countries in the sub-region have acknowledged that the promotion of travel and tourism (T&T) could be an important contributor to economic growth, job creation, export earnings and FDI. According to the World Tourism Organization (WTO), the sub-region was one of the most popular international tourist destinations in Sub-Saharan Africa in 1999. Three countries - Zambia, Zimbabwe, and SA - were among the four top African countries that recorded the highest increase in tourist arrivals in 1999.<sup>1</sup> Tourism arrivals increased by 26% in Zambia and 17% in Zimbabwe while SA's record was relatively smaller, 3.2%.

Travel and tourism is a major contributor to economic development in most countries in the sub-region. It is estimated that the sub-region's T&T Industry contributed to nearly 4% of GDP in 1999. It accounted for nearly one-third of Mauritius's aggregate GDP and one-fifth of that of Namibia and Seychelles. The sub-region's capital investment in T&T amounted to US\$3.5 billion in 1999, almost 11% of total investment.

This sector is also an important source of employment. A World Travel and Tourism Council (WTTC) report estimated that employment in the sub-region's tourism sector was nearly 1.3 million directly and about 3.4 million indirectly in 1999. The contribution of this sector to job creation is particularly appreciable in Mozambique, South Africa, and Tanzania (See Table below). According to the WTTC, in SA, one job is created for every eight visitors in the T&T Economy, and one job for every 20 visitors in the T&T Industry. However, SA's tourism potential is far from being fully exploited. Tourism employment as a percentage of total employment is relatively low and accounted for 6% in the T&T Economy in 1999. In addition, expansion of the tourism industry is limited by the capacity of the enterprises, which provide transport, accommodation, entertainment and travel services. Most of them are small and medium enterprises staffed by less than 50 employees. In absolute terms, SA's capital investment was the highest in the SADC region and equaled US\$2.4 billion, followed by Mauritius (US\$0.2 billion) and Tanzania (US\$0.2 billion). However, SA's capital investment in T&T was low and represented 12.1% compared to that of Mauritius's 20.1%. Although the SA's expenditure on T&T in 1999- US\$137.2 million- was the highest in the region, the contribution of this sector to GDP was relatively low, less than 9%.

**Table A.2.3: Travel and Tourism Economy figures, 1999 Estimates**

	T&T Economy GDP (US\$ million) *	T&T Economy as % of total GDP	Employment in T&T (‘000)	Capital investment in T&T (US\$ million)
Angola	352.5	5.2	127.5	62.9
Botswana	585.7	12.0	35.8	113.3
DRC	545.4	6.2	389.4	75.6
Lesotho	36.6	4.9	28.2	40.4
Malawi	117.8	3.9	96.6	15.6
Mauritius	1200.3	27.9	55.5	266.9
Mozambique	217.3	9.4	677.8	81.3
Namibia	560.8	20.9	58.3	65.4
Seychelles	232.2	20.7	36.8	31.2
South Africa	9086.2	8.2	648.2	2431.7
Swaziland	133.7	8.8	19.4	27.0
Tanzania	738.2	11.4	817.7	195.6
Zambia	395.6	7.0	197.2	60.1
Zimbabwe	466.7	12.4	228.8	59.7
<b>Total SADC</b>	<b>14 669.0</b>	<b>9.0</b>	<b>3417.2</b>	<b>3526.7</b>

Source: SADC's T&T-Economic Driver for the 21<sup>st</sup> Century WTTC, July 1999.

Note: \*Goods and services produced for visitors, etc., strongly dependent on T&T spending.

SA receives most international tourists and is the main beneficiary international tourism receipts in the sub-region. In 1998, the World Tourism Organization ranked SA 25<sup>th</sup> out of the 40 most popular tourist destinations in the world and the only SSA country on the top 40 list.

**Table A.2.4: SADC Tourists arrivals and receipts -1998**

	International tourist arrivals (‘000)	International tourism receipts (US\$ millions)	Average receipts per tourist (US\$)
Angola	50	9	180
Botswana	740	185	250
DRC	32	2	63
Lesotho	115	20	174
Malawi	215	8	37
Mauritius	570	502	881
Mozambique	NA	NA	NA
Namibia	510	339	665
Seychelles	131	120	916
South Africa	5981	2 366	396
Swaziland	325	40	123
Tanzania	447	431	964
Zambia	382	90	236
Zimbabwe	1 600	246	154
<b>Total SADC</b>	<b>11 098</b>	<b>4 358</b>	<b>393</b>
<b>Total Africa</b>	<b>24 903</b>	<b>9 551</b>	<b>384</b>

Source: Tourism Market Trends, World Tourism Organization, 1999.

Development of the tourism industry in the sub-region suffers from a number of constraints: First, transport costs are generally high and the quality of transport and telecommunications infrastructure is poor. This results in additional constraint to tourism performance. For example, protection of national airways inhibits competition and competitive price setting of airfares. Intra-regional flight connections manifest a hub-and-spoke pattern with Johannesburg International as the hub, adding to the cost of travelling in the sub-region. Second, cross-border movement is inhibited by the lack of a tourism univisa, adding to transaction costs for travellers both in time and money. Third, hazardous factors such as road accidents and diseases (malaria and HIV/AIDS) are raising risk perceptions of potential tourists. Fourth, political factors such as regional conflicts, crime, social unrest, urban terrorism, and wars are compounding these negative perceptions.

**Table A.2.5: Trends in Economic Growth over the Last Three Decades**

Countries	First Decade pre-SADC Average over 1970-79	Second Decade pre-SADC Average over 1980-90	Eight Years of SADC Existence									
			Average over 1992-2000	1992	1993	1994	1995	1996	1997	1998	1999	2000(b)
SADC	3.2	2.2	2.2	-2.4	0.2	2.7	3.2	4.6	2.7	1.3	1.8	2.5
Angola	NA	2.3 (a)	0.4	-5.1	-23.8	1.4	10.3	10.0	6.2	3.2	2.7	3.2
Botswana	15.5	10.3	4.3	3.0	2.0	3.6	5.1	6.9	4.0	3.5	4.5	5.9
Congo, Dem. Rep.	0.2	1.0	-1.8	-10.5	-13.5	-3.9	0.7	-0.9	-5.7	3.0	8.0	8.5
Lesotho	7.9	3.8	3.7	4.8	3.8	3.4	4.5	10.0	8.0	-5.0	2.5	2.5
Malawi	6.2	2.0	2.9	-7.3	9.7	-10.2	16.7	7.3	3.8	2.0	4.0	3.2
Mauritius	7.0	4.4	5.4	6.2	5.4	4.1	4.7	5.7	5.5	5.6	3.4	7.7
Mozambique	NA	0.1(a)	5.7	-8.1	8.7	7.5	4.3	7.1	11.1	11.9	7.3	3.8
Namibia	NA	1.2 (a)	3.2	7.1	-1.7	6.4	3.7	2.1	2.6	2.4	3.1	3.9
Seychelles	8.9	2.7	2.9	7.2	6.2	-0.8	-0.6	4.7	4.3	2.0	1.5	2.5
South Africa	3.3	2.0	1.8	-2.1	1.2	3.2	3.1	4.2	2.5	0.6	1.2	2.2
Swaziland	5.5	6.9	2.8	1.3	3.3	3.5	2.7	3.9	3.7	2.0	2.0	3.0
Tanzania	NA	NA	3.2	0.6	1.2	1.6	3.6	4.5	3.5	4.0	4.7	5.2
Zambia	1.5	1.2	0.8	-1.7	6.8	-8.7	-2.5	6.6	3.3	-1.9	2.4	4.0
Zimbabwe	3.8	5.3	1.1	-8.4	2.4	5.4	0.3	10.2	2.8	3.7	0.1	-5.5

Source: World Bank, SIMA, Regional Database and Author's Calculations.

Note: Average over period 1981-90.

Data for 2000 are estimates.

### Box A.2.3: Growth Performance of SADC Countries, 1995-2000

At the onset of the 1990s, economic activity deteriorated significantly in a number of SADC countries. Angola recorded a sharp decline of nearly 24% in real GDP growth in 1993, while the DRC entered into six consecutive years of economic downturn in which real GDP growth fell sharply by more than seven percent annual average throughout 1989-94. Output growth shrunk drastically in Malawi in 1992 (-7.3%) following five consecutive years of economic growth. In 1994, real GDP plunged in Zambia (-8.7%) and contracted in the Seychelles (-0.8%). The continued rapid growth observed in Botswana at the end of 1980s and early 1990s, ceased in 1992-93, with real GDP growth averaging slightly more than two percent compared with seven percent in 1990-91

The mid-1990s witnessed economic recovery in SADC. The pace of economic activity regained momentum, reflecting gains stemming from the implementation of stabilization programs combined with structural reforms in various areas, including the liberalization of trade and exchange systems; civil service and tax administration reforms; and privatization of state-owned enterprises. However, this economic upturn differs among countries and varies from year to year.

In 1995 and 1996, Botswana and, to a lesser extent, South Africa experienced relatively rapid growth. Real GDP grew in both countries by an annual average of six percent and slightly higher than three percent, respectively. While the main sources of growth in Botswana were the dynamics of diamond output and the strong demand for diamonds in the mid-1990s, economic expansion in South Africa resulted from a combination of manufacturing sector performances and buoyant activity in the financial markets<sup>1</sup>. The electricity, water, and gas sectors also contributed to growth as these sectors benefited from rising demand in neighboring countries and the program of providing the less developed regions of the country with electricity and water. In 1998 and 1999, growth slowed as a result of a contraction in the manufacturing sector, the termination of the export incentive program, the consequences of the financial crisis in East Asia, and movements in the real effective exchange rate. Nevertheless, Botswana's growth continued its solid path, averaging four percent between 1997 and 1999. The main factors accounting for Botswana's record were the performance of finance, transport, and construction sectors, which recorded double-digit growth rates in 1998-99. Real domestic demand also grew reflecting an increase in private consumption. Public investment rose as a result of the implementation of development projects under the Eighth National Development Plan (NDP8). In 2000, economic activity remained strong in Botswana—where GDP grew at approximately six percent—and recovered modestly in South Africa. Real GDP grew by 2.2% and is estimated to rise further between 3.5% and 4% in 2001 based on IMF Staff estimates. Malawi's economy recovered from a sharp fall of -10.2% in real growth in 1994, which stemmed from severe droughts. Real GDP expanded by almost 12% on average in 1995-96. Favorable weather conditions along with the liberalization in the agricultural sector, boosted agriculture production. Yet, growth subsequently lost its pace, expanding by only 3.2% in 2000.

Like most of SADC's countries, growth rose in Zambia in 1996 by 6.6% compared with a cumulative drop of -5.7% on average in the two previous years. This economic turnaround was stimulated by favorable weather conditions that increased agriculture production during 1995 and 1996. Particularly, the production of maize, Zambia's major staple food, almost doubled. The Production of other crops, including sunflower seeds, seed cotton, and soybeans, rose by more than 100%. The Mining sector was also a source of growth,

<sup>1</sup> In Botswana, diamond production averaged about 16 million carats during 1990-94 and increased to 17 million during 1995-96. Following the ORAPA 2000 project that was expected to increase mining output to about 26 million carats by the year 2000, demand for diamonds rose significantly.



increasing by 12%. It featured copper and cobalt production that rose by two percent and 70%, respectively. Other sectors that added to economic growth were wholesale and retail trade (13%) and restaurant and hotels (18%). Growth slowed, halving in 1997 (to 3.3%) and declining further in 1998 (by about two percent). However, in 2000, real GDP expanded by four percent above the population growth rate.

Mauritius, Mozambique, Swaziland and Tanzania have recorded a long-lasting period of growth. Particularly, Mauritius's GDP has been growing solidly since 1981. Apart from 1983 and 1999, real GDP growth has regularly exceeded 4%, an average greater than the population growth. In 2000, real GDP is estimated to have grown by more than seven percent, a level comparable to many of the fastest-growing Asian countries.

Since 1993, real GDP growth has been strong in Mozambique increasing by almost six percent on average during the period 1992-2000 more than nine percent in the period 1996-99. However, economic performance remains fragile and exposed to adverse external shocks 2000, economic growth fell drastically to 3.8% as a result of the devastating floods that hit the southern and central regions of the country February and March of 2000. Agricultural production as well as small manufacturing and services were most affected by the floods.

Swaziland has also enjoyed a long path of growth since 1980. However, since 1991, growth has been modest ranging between two to three percent on average. Tanzania has moved from its disappointing growth rates of the early 1990s to remarkable performances in the mid-1990s. This situation particularly reflects the improvement of the macroeconomic stance since 1995. Indeed, the newly appointed government has reinforced macroeconomic and structural adjustment policies, restraining fiscal position and reforming tax administration in order to increase revenue. Agriculture and manufacturing production rose in response to these reforms. In 1998-2000, real GDP grew at an annual average of more than four percent, exceeding the population growth rate estimated at less than three percent.

Lesotho, Malawi, Namibia and the Seychelles also experienced increases in real GDP throughout the 1990s. However, their records remain fragile and subject to weather conditions and terms of trade fluctuations. In the specific case of the Seychelles, real growth slowed in the late 1990s, stemming from the contraction in the tourism activity and its spillover effects through the rest of the economy.

Angola enjoyed strong growth in the mid-1990s with real GDP growth increasing on average by 10% in 1995-96 from a low level in previous years. Yet economic growth fell drastically to 2.7% in 1999 as a result of the resumption of civil war in late 1998. Economic activity in the non-oil sector was particularly affected by the instability of the business environment. However, in 2000 growth recovered slightly. Zimbabwe is the only SADC member state to record negative growth in 2000, reflecting mainly the devastating effects of Cyclone Elaine on crops and infrastructure as well as the economic impact of the current political situation.

## Attachment 2b.2

### SADC Countries: Fiscal Performance

**Table A.2.6: Trends in Budget Deficit/Surplus (including & excluding all grants (a), Annual Average in % of GDP)**

Countries	Pre-SADC	During SADC Existence	Eight Years of SADC Existence									
	Average over 1985-90		Average over 1991-95	Average over 1996-99	1992	1993	1994	1995	1996	1997	1998	1999
Angola	-13.7 -13.7	-29.4 -29.4	-15.8 -15.8	-56.9 -56.9	-21.7 -21.7	-20.1 -20.1	-26.6 -26.6	-20.4 -15.8	12.4 -17.9	-13.9 -15.1	-18.1 -20.4	13.0 12.4
Botswana	13.8 12.0	6.5 5.5	0.9 0.7	9.5 8.5	8.7 7.1	3.1 2.2	1.8 1.5	6.4 6.0	3.8 3.7	4.0 -4.1	2.6 -2.7	2.0 2.0
DRC	NA NA	NA NA	-8.0 -10.0	NA NA	NA NA	NA NA	NA NA	NA NA	NA NA	9.2 -11.1	-6.8 -9.0	-5.1 -5.7
Lesotho	-5.2 -11.6	3.3 -2.4	1.0 -2.5	2.5 -3.6	4.9 -0.3	5.3 0.6	4.5 0.1	3.5 -0.8	3.4 -0.8	0.5 -2.8	-3.5 -5.8	-8.4 -11.0
Malawi	-5.7 -9.5	-9.8 -15.5	-6.2 -12.2	-11.1 -13.9	-6.9 -9.7	-20.0 -31.6	-7.6 -16.1	-8.8 -13.6	-9.5 -13.3	-2.3 -10.7	-4.0 -11.1	-4.2 -10.1
Mauritius	-2.4 -3.1	-3.0 -3.2	-4.6 -4.8	-2.3 -2.4	-2.2 -2.4	-3.0 -3.3	-5.5 -5.8	-7.4 -7.6	-5.7 -5.9	-3.1 -3.2	-2.2 -2.5	-1.6 -1.9
Mozambique	-7.7 -13.8	-3.6 -15.7	-2.3 -11.3	-2.7 -16.5	-3.6 -15.5	-5.3 -19.2	-3.2 -13.0	-2.9 -9.9	-2.5 -11.7	-2.4 -10.6	-1.5 -12.9	-6.0 -11.8
Namibia	NA NA	NA NA	-4.3 -4.6	NA NA	NA NA	NA NA	NA NA	-5.9 -6.2	-3.9 -4.2	-3.7 -3.9	-3.8 -4.2	-3.7 -4.1
Seychelles	NA NA	-11.0 -10.4	-15.9 -16.4	-5.8 -7.1	-11.4 -13.0	-16.5 -17.2	-16.1 -16.7	-10.7 -11.3	-13.4 -13.8	-25.0 -25.5	-14.4 -15.0	-8.4 -9.3
South Africa	4.1 4.2	-6.3 -6.5	-4.9 -4.9	-7.4 -7.8	-8.9 -9.0	-6.2 -6.2	-5.2 -5.2	-5.4 -5.4	-4.5 -4.5	-5.1 -5.1	-4.7 -4.7	-3.7 -3.7
Swaziland	NA NA	-0.9 -1.9	-2.4 -3.2	-0.1 -1.5	-3.6 -4.7	-3.6 -4.6	-2.5 -3.3	-2.4 -3.2	-2.6 -3.4	-2.4 -3.3	-2.1 -3.0	-1.9 -1.9
Tanzania	-2.6 -5.7	0.5 -2.1	0.1 -2.8	3.2 0.8	-1.4 -4.8	1.6 -1.7	-3.4 -5.2	-1.9 -3.9	1.8 -1.4	0.2 -2.6	0.4 -3.3	-1.6 -5.4
Zambia	-10.4 -12.1	-5.2 -12.7	-1.5 -7.9	-2.5 -12.6	-5.6 -13.6	-6.5 -11.8	-4.3 -9.5	-0.5 -6.6	-0.2 -5.3	-3.2 -9.8	-2.0 -10.0	-3.8 -13.1
Zimbabwe	-7.7 -8.7	-7.0 -8.7	-6.8 -8.0	-6.8 -8.4	-6.1 -8.1	-6.7 -8.6	-10.1 -11.9	-7.7 -9.0	-7.5 -8.5	-2.4 -4.0	-9.4 -10.4	-15.5 -19.4

Source: World Bank, SIMA, Regional Database and Author's Calculations.

Note: (a) First numbers represent fiscal deficit, including all grants while the second ones represent fiscal deficits, excluding all grants.

**Table A.2.7: Government revenue (In % of GDP)**

	Government revenue, incl. all grants as % of GDP			Government revenues, excl. all grants as % of GDP (%)		
	1980	1990	2000	1980	1990	2000
SADC	NA	NA	NA	NA	NA	NA
Angola	NA	25.6	46.6	NA	25.6	46.0
Botswana	NA	49.9	46.6	NA	48.5	46.5
DRC	NA	NA	16.8	NA	NA	14.2
Lesotho	NA	48.5	42.7	NA	37.4	40.1
Malawi	24.1	23.7	21.5	19.8	21.0	15.6
Mauritius	NA	23.1	22.5	NA	22.8	22.2
Mozambique	15.3	22.5	23.4	13.5	12.8	14.4
Namibia	0	33.1	36.7	0	31.9	36.3
Seychelles	NA	49.6	53.3	NA	47.7	52.4
South Africa	6.0	26.3	27.5	6.0	26.1	27.5
Swaziland	NA	..	29.8	NA	NA	29.0
Tanzania	NA	18.1	14.4	NA	14.7	10.6
Zambia	NA	24.6	28.1	NA	20.3	18.8
Zimbabwe	11.8	27.8	35.3	11.1	27.0	31.4

Attachment 2b.3

**Inflation, interest rates and exchange rates****Table A.2.8: Trends in Inflation (Changes in CPI, Annual Average in %), 1970-2000**

Countries	First decade pre-SADC	Second decade pre-SADC	Eight Years of SADC Existence									
			Average 1970-80	Average 1981-90	Average 1992-2000	1992	1993	1994	1995	1996	1997	1998
SADC	16.3	10.7	14.3	21.2	18.2	17.7	17.2	15.7	15.4	10.0	6.5	8.0
Angola	NA	NA	646.4	495.8	1837.9	366.3	2672.0	4146.0	111.0	107.0	248.0	312.0
Botswana	11.9(a)	10.6	11.7	16.1	11.4	10.6	10.5	10.1	11.7	13.2	10.3	3.6
DRC	37.8	58.6	689.5	4129.2	1986.9	23773.1	541.9	658.8	13.7	15.3	12.1	8.3
Lesotho	14.4(b)	13.4	9.8	17.2	13.1	8.2	9.3	9.3	7.3	7.3	7.3	8.3
Malawi	NA	16.1	33.5	22.7	19.7	34.7	83.3	37.6	9.1	27.4	45.3	26.4
Mauritius	13.2	8.2	7.0	4.7	10.5	7.3	6.0	6.5	6.9	4.9	8.7	6.0
Mozambique	NA	41.5	30.3	45.1	42.3	63.1	54.4	44.6	6.4	0.6	3.1	12.3
Namibia	NA	13.0	9.7	17.7	8.6	10.8	10.0	8.0	8.8	6.2	7.6	6.5
Seychelles	16.4(c)	3.0	0.6	3.2	1.3	1.8	-0.3	-1.1	0.6	-3.2	2.7	9.5
SA	10.0	14.6	8.6	13.9	9.7	9.0	8.6	7.4	8.6	6.9	5.2	5.4
Swaziland	10.7	13.4	9.4	8.2	11.2	13.8	12.3	6.4	7.2	8.5	8.0	7.3
Tanzania	12.4	30.6	22.2	21.8	25.3	33.1	29.8	28.0	21.0	12.8	7.9	5.6
Zambia	13.4(d)	45.4	61.1	169.0	188.1	53.6	34.9	43.1	24.5	24.4	26.8	25.9
Zimbabwe	NA	14.1(e)	29.8	42.1	27.6	22.2	22.6	21.4	18.8	31.8	56.2	80.3

Source: World Bank, SIMA, Regional Database and Author's Calculations.

Note: Average over period 1975-80; (b) Average over period 1976-80; (c) Average over period 1971-80; (d) Average over period 1974-80; (e) Average over period 1982-90. (f) Data for 2000 are estimates.

**Table A.2.9: Three-Month Real Interest Rates, 1995-2000<sup>1</sup> (Treasury bill rates)**

Countries	1995	1996	1997	1998	1999	2000	Average 1995-2000
Angola	NA	NA	NA	NA	NA	NA	NA
Botswana	NA	NA	NA	NA	NA	NA	NA
DRC	NA	NA	NA	NA	NA	NA	NA
Lesotho	2.5	4.8	6.3	7.7	3.8	3.1	4.7
Malawi	-36.8	-6.9	9.2	3.2	-1.9	9.9	-3.9
Mauritius	4.1	3.5	1.9	3.3	3.2	6.6	3.8
Mozambique	NA	NA	NA	NA	NA	4.3	4.3
Namibia	3.9	7.2	6.9	11.0	4.7	5.8	6.6
Seychelles	12.4	12.6	9.9	5.3	-1.8	-2.2	6.0
South Africa	4.8	7.7	6.6	9.7	7.6	4.7	6.9
Swaziland	-1.4	7.2	6.4	5.6	5.3	-1.6	3.6
Tanzania	13.9	-5.8	-6.5	-0.7	3.8	3.6	1.4
Zambia	4.9	9.7	5.1	0.5	9.4	5.3	5.8
Zimbabwe	5.4	3.1	3.2	0.5	-7.7	9.1	2.3

Source: WETA (August 15, 2001)

Note: <sup>1</sup> Three-month interest rate less twelve-month CPI inflation rate.

**Table A.2.10: Real Effective Exchange Rates**

	Real Effective Exchange Rate Index (1990=100)		
	1980	1991	2000
SADC	124	98	109.8
Angola	NA	NA	NA
Botswana	117	98	99
DRC	332	96	NA
Lesotho	118	66	74
Malawi	111	104	129
Mauritius	NA	NA	NA
Mozambique	118	85	NA
Namibia	129	98	83
Seychelles	91	99	122
South Africa	134	104	88
Swaziland	NA	NA	NA
Tanzania	NA	99	121
Zambia	135	93	138
Zimbabwe	165	66	NA

**Attachment 2b.4****SADC Countries: Financial Systems****Box A.2.4: Some Aspects of the Financial Systems in SADC Countries****Angola**

Following Angola's independence in 1975, foreign banks were nationalized. In 1991 the financial system was reformed. The Banco Nacional de Angola (BNA, which functioned as the central bank and a commercial bank) was restricted to central banking activities. The Banco Popular de Angola (BPA) remained in state hands, but changed its name to the Banco de Poupanco e Credito (BPC). A new state bank, the Banco de Comércio e Industria (BCI), also came into being. The Caixa de Crédito Agropecuaria e Pescas (CAP) was formed to support agricultural activities, but it developed into a slush fund with a large portfolio of bad loans. Insurance was limited to one state-owned company, the Empresa Nacional de Seguros e Resseguros de Angola (Ensa), formed in 1978. Local and foreign private banks also began operating in Angola after the 1991 reforms. In 2000 there were six commercial banks of which two were state-owned. Banking system reforms are underway; however, the money and capital markets remain undeveloped with informal money markets filling the vacuum.

**Botswana**

Botswana has a small but efficient banking sector. The central bank (Bank of Botswana) is conducting the traditional central bank role in an autonomous and efficient manner. Botswana has four commercial banks carrying out normal retail and commercial banking activities, leasing, property finance and merchant banking. The capital market in Botswana is not broadly based, having a small equity market and no debt market. The stock exchange, established in 1990 (with 9 listed companies and market capitalization of US\$261 million), had 15 listed companies with a market capitalization of US\$1 042 million in 2000, but its turnover ratio, measured in terms of value traded in dollar terms as a percentage of average market capitalization, has remained below 10%. The capital market is quite free. There is no capital-gains tax on the sale of publicly traded company shares, and dividends are not taxable. Foreign investors can trade freely in the stock market without bureaucratic controls. Botswana has two DFIs offering longer-term financing and specialized services targeted at specific sectors.

**DRC**

The financial sector in the DRC is underdeveloped and has functioned unreliably due to the impact of hyperinflation and extreme currency

depreciation on transactions. The commercial banks are mostly subsidiaries and associates of Western banks. The largest is the *Banque commerciale congolaise* (formerly *Banque commerciale zairoise*), in which *Societe Generale de Belgique* has a 25% stake through its subsidiary *Belgolaise*. The 13 largest banks are grouped in the *Association congolaise des banques*. There is also a 40% state-owned investment bank, the *Societe financiere de developpement* (Sofide), which lends mainly to the manufacturing and agricultural sectors. With funding from the World Bank, the *Banque Centrale du Congo* (BCC) has undertaken an extensive audit of financial institutions in Kinshasa, which resulted in a decision to close or restructure insolvent operations. In an attempt to re-establish the credibility of checks, the government has passed a law that requires all government payments to be made by check. The BCC is benefiting from the SADC programs to strengthen the central banks' information technology system and to align the country's payments system with that of its neighbors.

#### **Lesotho**

The financial sector in Lesotho is limited. The Central Bank (created in 1982) acts as regulatory body and its functions include the implementation and control of monetary policy (including administering of exchange controls) as set out in the Banking Act and under the Multilateral Monetary Agreement (MMA) to which Lesotho subscribes, along with SA, Namibia and Swaziland. The rest of the formal financial sector in Lesotho consists of three commercial banks, namely Lesotho Bank, Standard Bank Lesotho Ltd and Nedbank Lesotho Ltd and insurance companies. The commercial banks have 16 branches, but have increased the number of agencies from 18 to 20. Apart from these financial institutions, the Lesotho National Development Corporation (LNDC) and the Co-operative Credit Unions, which operate under the Lesotho Credit Union League, also play an important role in providing specialized financing services. The Co-operative Credit Unions provide equity finance, financing for the acquisition of fixed assets and long-term loans. A review of the legal framework of the financial sector and the amendment of the Financial Institutions Act and the Central Bank of Lesotho Act commenced during 1997. A specialized bank, the Lesotho Agricultural Development Bank, was closed down in 1998. The Government will complete the financial restructuring of Lesotho Bank (which was government owned and experienced serious financial stress) with a view to privatization. Insurance services are provided by a number of brokers and South-African based insurance companies, with the strongest emphasis on life policies. The Lesotho National Insurance Company provides the widest range of services. The government divested half the shares in this company to private shareholders in 1995 and split the general and life assurance businesses into two separate subsidiaries.

#### **Malawi**

Malawi's government embarked on a program to liberalize its financial system in 1995-96. It aimed to move to market-determined interest rates, no direct controls over credit, and unrestricted access to domestic financing facilities for local and foreign investors. The Reserve Bank of Malawi (RMB) is relatively independent in setting monetary policy and issuing local currency. It also administers the Exchange Control Act and operates the fledgling market in government stock. The RBM has been struggling to oversee the financial sector. The Malawi Savings Bank (MSB) deteriorated to such an extent that the government provided financial support equal to 0.5% of GDP, strengthened its management and placed in under close prudential supervision. Malawi has six commercial banks, with the *National Bank of Malawi* and the *Commercial Bank of Malawi* operating countrywide. These banks offer all the conventional banking services including check accounts, registration of foreign capital with the Reserve Bank, short- and medium-term credit facilities, trade financing, export credit guarantees, foreign remittances and repatriation of capital. The capital market is in its infancy with 2 companies listed and only one stockbroker operating on the Malawi Stock Exchange. There are good prospects for further listings with the implementation of the privatization program. As recently as 1998, Malawi had still six DFIs, which are probably far too many for the size of its economy.

#### **Mauritius**

Mauritius has a highly sophisticated financial structure and has next to South Africa, perhaps the most developed financial system in SADC. There are a number of public and private commercial banks, both domestic and offshore, that extend short- and long-term credit to the industrial sector. Other financial institutions operating in Mauritius include insurance companies, mutual funds, pension funds, mortgage companies, leasing companies, investment companies and trusts, and the Stock Exchange of Mauritius.

The central bank, the Bank of Mauritius, was established in 1967. Among other functions, the Bank administers the Banking Act of 1988, which provides the legal framework for the domestic and offshore banking sectors, laying great emphasis on the central bank's supervisory responsibilities and provides for annual meetings between the Bank of Mauritius, commercial banks and their external auditors. The operations of moneychangers and foreign exchange dealers fall under the provisions of the Foreign Exchange Dealers Act of 1995. In 2000, the financial sector comprised ten commercial banks, ten offshore banks and seven other non-bank financial institutions authorized to transact deposit-taking business. The three largest commercial banks are the government-owned State Bank of Mauritius, Barclays Bank and the Mauritius Commercial Bank. The major banks operate a well-developed branch network. Offshore banking was launched in 1989. Other important financial institutions include the Development Bank of Mauritius, the Mauritius Commercial Bank Finance Corporation, the State Finance Corporation, the Mauritius Housing Corporation and the Post Office Savings Bank. The money market involves inter-bank transactions and the trading of short-term Government/BoM bills. The capital market revolves around the securities exchange, which is the only organized market for shares and a limited number of bonds. The Stock Exchange of Mauritius was established in Port Louis in 1989 with 13 listed companies and market capitalization valued at US\$268 million. In 2000, there were 41 listed companies with a total market capitalization of US\$1 485 million, but turnover remained below 10%.

#### **Mozambique**

The development of the financial sector in Mozambique was dealt a heavy blow when all private banks were nationalized in 1978. They were merged into two state institutions, the Banco de Mozambique (the central bank) and the Banco Popular de Desenvolvimento (BPD). During the 1980s and early 1990s the banking system operated virtually as an extension of the national budget. Most credit was directed to loss-making state enterprises, real interest rates were negative, savings dropped sharply and the banks accumulated large bad debts. The reform of the financial sector began in 1992. In a first phase foreign banks were granted permission to invest in Mozambique, interest rates were deregulated, and the commercial activities of the central bank were transferred to a new state institution Banco Comercial de Mozambique (BCM). The BPD was privatized in 1996 and the BCM in 1997. The reform efforts significantly boosted the scope of the Banco de Mozambique to operate more independently and to expand its capacity to oversee the financial sector. The liberalization of the financial sector has attracted new entrants such that Mozambique has had 67 commercial banks, a credit union, a leasing company and an investment bank in 2000. The branch network has been expanded and banks have diversified their products and services. However, the informal money market that emerged in earlier mono-banking days is still being used extensively. An interbank money market was created in October 1997, but money and capital markets remain underdeveloped. In December 1991 legislation was approved which terminated the state monopoly of insurance and reinsurance activities. However, in 2000 there were no long-term insurers in Mozambique and the legislation regarding the insurance sector has been in need of updating. A stock market, the Bolsa de Valores de Mozambique has commenced operation in October 1999, trading largely in treasury bills. Listing among the fair number of candidates has been constrained by only a few having adequate accounting standards and management to bring confidence to the newly established market.

### Namibia

The (central) Bank of Namibia was established in 1990 to take over functions previously performed by the South African Reserve Bank. The Central Bank, the Ministry of Finance and financial institutions are pursuing the development of new financial instruments and markets including parastatal bills, debentures and bonds, government treasury bills and negotiable certificates of deposit. The domestic money and forex markets are nascent but developing. Local inter-bank lending is limited due to the small size of the market with Namibian banks participating more in the SA inter-bank market. In 2000, Namibia had five commercial banks, two building societies, five insurance companies and nine public financial institutions, including four DFIs. Both the commercial banks and life insurance offices in Namibia were subsidiaries of South African organizations. All banks provide comprehensive domestic and international banking services. Short-term insurance and life insurance broking, estate planning and factoring are some of the ancillary services provided by banks. Several major SA companies have registered local entities in Namibia. The Namibian Stock Exchange (NSX) commenced operations in October 1992 with 3 listed companies and market capitalization valued at US\$21 million. By 2000, it had 21 listed companies and a market capitalization of US\$410 million, with a turnover ratio of less than 10%. The Stock Exchange has established an Unlisted Securities Market Authority to manage a separate trading system for shares of companies that do not meet the stringent requirements for a full board listing on the stock exchange.

### Seychelles

The financial sector of Seychelles functions well, but markets are thin due to the small size of the economy. The Central Bank of Seychelles (CBS) is regarded as fairly efficient administratively, but it does not function independently from the government. Four international commercial banks operate in Seychelles: Barclays Bank (UK), Banque Francaise Commerciale-Océan Indien (France), Bank of Baroda (India) and Habib Bank (Pakistan). In addition, three state-owned national banks are also active: the Development Bank of Seychelles (which extends soft loans to companies in priority development areas with majority Seychelles shareholdings), the Seychelles International Mercantile Banking Corporation and the Seychelles Savings Bank.

### South Africa

SA has a highly sophisticated financial system. The Reserve Bank of *South Africa* was established in 1920, and functions autonomously in the conduct of its main responsibility of formulating and implementing monetary policy to attain its mission. In 2000 there were 44 registered banks and mutual banks, 15 local bank branches of foreign banks and 61 foreign banks had approved local representative offices in SA. Other financial institutions include finance companies, participation mortgage bonds, unit trusts, insurance companies, pension funds, etc. The *Johannesburg Stock Exchange* (JSE) was established in 1887, and in 2000 it represented 649 listed companies with a market capitalization value of US\$213 billion and a turnover ratio of 34%. The JSE accounted for 89% of the African regional market capitalization in 2000. SA has also a formalized exchange for futures and options contracts, SAFEX, and an exchange for debt instruments (gilts and semi-gilts), BESA – the Bond Exchange of SA. These financial structures are also complemented by a development finance system of 5 sectorally delineated DFIs, the largest of which are the Industrial Development Corporation and the Development Bank of Southern Africa, both of which operate also in the rest of Africa.

### Swaziland<sup>2</sup>

The Central Bank of *Swaziland* was established as the country's monetary authority in April 1974 and took on other central banking functions in 1979. The present mandate of the Bank includes: issuance, service and redemption of domestic debt; external debt management; administration of exchange control, and formulation/implementation of monetary policy. The Central Bank also operates three lending schemes, namely the Export Credit Guarantee Scheme, the Small Scale Enterprise Loan Guarantee Scheme and the Public Enterprise Loan Guarantee Fund. There are four commercial banks and a building society operating in Swaziland. Instruments used in the money market include: stocks and treasury bills, bank acceptances and negotiable certificates of deposits. Swaziland has a well-developed commercial banking system that is served by SA's Nedbank, Standard Bank, First National Bank and the parastatal Swaziland Development and Savings Bank. The Swaziland Building Society provides long-term mortgage lending to all income groups. The Swaziland Royal Insurance Corporation, a 'private' enterprise of which 41% is government-owned, has an industry monopoly. The Insurance and Pensions Bill of 1993 has still not been passed, owing to a lack of political will, but if passed it would increase competition and efficiency. Several SA companies have indicated that they will enter the market if it is liberalized. The Swaziland Stock Exchange was opened in 1990 but ten years on only 17 companies with a market capitalization value of US\$95 million are listed and trading levels remain small. According to the Governor of the CBS, a very small proportion of the market capitalization can be ascribed to investments by indigenous small savers. Swaziland has two DFIs: and two other institutions involved in development finance, one of which is the *Tibiyo Taka Ngwane*, a national (royal) trust.

### Tanzania

The Bank of *Tanzania* was established in 1966 with its objective being revamped in the new Bank of Tanzania Act of 1995 to maintain price stability with balanced, sustainable economic growth. In 1991, the financial sector was opened to private and foreign capital and forex and T-bill markets were liberalized. Steps are being taken to encourage the development of interbank and secondary markets for treasury bills and other securities. One of the aims is to provide liquidity for Tanzania's nascent capital market. The BoT has started to use repurchase transactions in government paper for monetary policy purposes and has introduced a special facility for seasonal lending to banks against collateral. The market, guided by the central bank's discount rate, determines interest rates. The BoT's regulatory and supervisory capabilities are being enhanced to meet the challenges created by the reforms and the expanding number of financial institutions. An electronic payments system was scheduled to be established in 2000/01. Sixteen foreign banks and nine non-bank financial institutions have been licensed to do business in Tanzania. More than 80 *bureaux de change* are in operation. The government decided in 1997 to privatize the state-owned National Bank of Commerce (NBC), which accounted for over half the banking deposits. In September of that year the Bank was divided into NBC (1997) and the National Microfinance Bank (NMB) and preparations began to privatize the two new institutions. A 70% stake was sold to ABSA, a SA commercial bank, in 2000, while the NMB was also placed under private management. The

<sup>2</sup> It should be noted that Swaziland's close association with South Africa in SACU and the CMA, limits autonomy in trade, monetary and fiscal policy. Interest rates in Swaziland cannot diverge significantly from those prevailing in SA because of the free movement of funds in the CMA, while the lilangeni remains at parity with the SA rand. Swazi banks have indeed placed their surplus funds in SA, in pursuit of higher returns. Although the renegotiated monetary agreement of 1986 gave Swaziland the legal right to break the parity condition, this is unlikely to occur. The Governor of the CBS, in his 2000 Annual Policy Statement noted that the currency relation with the rand has benefited Swaziland and expressed the opinion that this relation should be sustained.

privatization and restructuring of state-owned financial institutions also included that of the Tanzania Investment Bank, the Tanzania Postal Bank and the People's Bank of Zanzibar. A liberalized insurance regime took effect in May 1998 and a number of private insurance companies were licensed. Four DFIs have been operating in Tanzania, and a policy framework for microfinance regulation was submitted for government approval in 2000. A Capital Market Authority was established in 1994 to regulate the Dar es Salaam Stock Exchange, which has become operational in 1998. For this purpose, five broking companies were licensed in 1997. Two companies were listed by 1999, with their market capitalization value amounting to US\$181 million. Financial sector reform is continuing, with the aim of fostering competition and efficiency in the supply of financial services, narrowing the spread between lending and deposit interest rates, and strengthening the mobilization and allocation of financial resources.

#### Zambia

Since independence, the Government of Zambia has played an active role in the banking sector, but under the pressures of structural adjustment, Zambia has been liberalizing its financial system. The Banking and Financial Services Act of 1994 was designed to provide an appropriate regulatory framework for the financial system. Under that Act the *Bank of Zambia* continues to exercise supervisory authority over the banking system. Its main responsibility is to protect the value of the country's currency and reducing inflation to single digit levels. Monetary control is exercised through indirect instruments such as open market operations. In 2000, Zambia had about 16 commercial banks both local and international. Many of these banks offer merchant and investment banking services. The Inter-market Discount House (IDHZ) of Zambia was established to help develop a local money market. IFC has made an equity investment of US\$500 000 for a 20% stake in IDHZ. The number of building societies has been growing, catering for small depositors and concentrating on long-term mortgage loans. The emergence of a formal capital market in Zambia has had a positive impact on the economic and financial sectors. The Lusaka Stock Exchange (LuSE) began operations in February 1994 and by 2000 it had 4 listed companies with a market capitalization value of US\$291 million. In addition to these developments, Zambia Enterprise Financing (ZEF) has been established to channel financial resources from the World Bank to the private sector through the domestic banking system. Finance Bank Zambia, the largest local private bank, has obtained a loan of US\$6.5 million from the IFC for the same purpose. A venture capital fund has been set up with an initial capital base of US\$15 million provided by a parastatal, the CDC and a number of European banks. One DFI, the Development Bank of Zambia (DBZ), has been re-organized as part of the financial sector restructuring program.

#### Zimbabwe

In Zimbabwe, the Reserve Bank (RZB) till recently enjoyed a large measure of autonomy in setting monetary and exchange rate policy with the aim of maintaining the internal and external value of the currency. On the back of high inflation and the collapse of the United Merchant Bank in 1998, the RZB introduced a number of changes for the banking sector and to remove some of the rigidities in the market brought about by the relatively fixed rediscount rate. They were to create a situation in which the market, instead of decisions by the central bank, would determine the cost of accommodation. Those regarding the money market included: the replacement of the rediscount rate and the overnight rate with a Reserve Bank rate, to enable the central bank to influence short-term interest rates, depending on market conditions; the introduction of anticipatory repurchase agreements to encourage banks to manage liquidity effectively; the replacement of end-of-week deposit figures as a basis for determining the 25% statutory reserve amount with a method that uses a weekly average liability position; and the introduction of a Treasury bill issue program of one-week periods to avoid untimely issues - the amount on offer to be determined by government's short-term funding requirements. As far as the banking sector was concerned, statutory deposits for commercial and merchant banks at the Reserve Bank of Zimbabwe were increased; any new entrants into the banking sector would have had to find twice as much capital than before to be considered for a banking license, while reporting procedures were tightened.

In 2000, Zimbabwe had a relatively sophisticated and rapidly growing financial sector comprising commercial and merchant banks, discount houses, building societies, accepting houses, a Post Office Savings Bank, insurance companies, pension funds, registered representative offices of foreign banks, a Credit Insurance Corporation which underwrote political and commercial risk, and three DFIs. Most restrictions on the sector were removed and banking regulations had been reviewed to make them more responsive to a market-led economy. The Zimbabwe Stock Exchange (ZSE) was established in 1974 and had 69 listed companies with a market capitalization value of US\$ 2 751 million in 2000. The ZSE is open to foreign investors, within certain limitations.

### Attachment 2b.5

#### Eastern and Southern African Countries: Foreign Debt, External accounts and Restrictions

Table A.2.11: Current Account Position (In % of GDP)

Countries	Pre-SADC		Eight Years of SADC Existence								
	Average over 1980-90	Average over 1992-99	1992	1993	1994	1995	1996	1997	1998	1999	2000(b)
Angola	-1.9 (a)	-34.2	-24.9	-26.2	-29.0	-40.9	-6.2	-19.7	-66.0	-60.8	NA
Botswana	1.7	6.6	5.7	11.3	5.7	6.9	13.6	11.3	2.9	4.8	-6.3
DRC	-5.7	-8.5	-10.6	-6.3	-8.4	-8.5	-6.8	-12.4	-9.4	-6.0	NA
Lesotho	-37.1	-22.8	-33.3	-30.4	-17.4	-21.4	-20.7	-19.0	-20.2	-20.3	-18.9
Malawi	-11.0	-15.9	-21.1	-16.8	-23.8	-12.8	-11.4	-12.7	-17.3	-11.5	-15.6
Mauritius	-3.9	-1.7	-0.2	-3.2	-6.6	-0.4	1.2	-1.5	0.9	4.1	-0.8
Mozambique	-21.5	-31.5	-41.7	-42.9	-41.9	-30.7	-23.7	-18.3	-20.3	-32.3	NA
Namibia	1.7	3.7	1.8	4.1	2.8	5.2	3.6	2.7	5.3	4.3	1.7
Seychelles	-5.2	-10.7	-1.8	-9.2	-4.5	-9.0	-11.1	-12.9	-18.4	-19.0	-23.3
SA	1.1	-0.4	1.5	1.2	0.1	-1.5	-1.3	-1.6	-1.6	-0.4	-0.7
Swaziland	-3.6	1.3	0.1	-6.1	3.3	2.2	-2.3	-3.4	20.9	4.5	-2.9
Tanzania	-13.3	-19.0	-24.2	-27.2	-24.7	-20.4	-14.8	-11.1	-14.5	-14.8	NA
Zambia	-14.8	-16.5	-25.9	-15.5	-12.8	-14.4	-13.9	-13.7	-19.0	-16.7	-17.1
Zimbabwe	-3.6	-5.7	-13.0	-4.9	-4.8	-5.4	-2.2	-10.0	-5.6	0.5	-2.1

Source: World Bank, SIMA, Regional Database and Author's Calculations. Note: (a) 1985-90. (b) Estimates.

**Table A.2.12: Total External Debt to GDP Ratio (%)**

Countries	Pre-SADC	Eight Years of SADC Existence									
	Average over 1980-90	Average over 1992-2000	1992	1993	1994	1995	1996	1997	1998	1999	2000(b)
Angola	69.4(1)	173.3	174.2	200.3	275.2	219.4	138.6	127.9	174.0	127.7	121.9
Botswana	20.3	13.2	14.8	15.8	15.6	14.4	12.5	11.1	10.6	10.8	13.3
DRC	75.0	175.5	133.8	125.7	172.3	209.1	218.8	202.3	189.3	172.3	155.5
Lesotho	45.3	71.7	59.8	66.1	74.0	72.6	71.3	64.5	78.8	81.5	76.6
Malawi	85.4	124.5	95.0	88.2	171.3	157.0	95.2	88.0	140.7	143.3	142.1
Mauritius	46.5	47.6	32.9	31.5	39.5	44.2	42.3	60.6	60.9	56.4	60.5
Mozambique	94.0(2)	238.3	262.4	247.8	320.8	311.8	261.2	217.4	212.7	152.6	157.7
Namibia	NA	5.6(3)	NA	NA	NA	NA	NA	NA	4.0	5.8	6.8
Seychelles	48.7	33.4	37.8	33.4	35.4	31.3	29.2	27.7	34.9	30.9	40.1
South Africa	NA	18.2(4)	NA	NA	16.0	16.8	18.1	17.0	18.4	19.0	22.4
Swaziland	43.3	24.5	22.9	21.0	20.7	18.5	18.1	28.0	20.5	35.7	35.0
Tanzania	132.2	116.6	145.1	159.5	160.4	140.9	113.3	92.8	88.8	72.9	75.7
Zambia	172.7	202.5	210.8	198.1	203.3	200.3	215.7	170.1	211.9	213.2	198.7
Zimbabwe	31.3	66.0	60.1	65.3	65.6	70.3	57.6	56.7	69.5	81.4	67.3

Source: World Bank, SIMA, Regional Database and Author's Calculations.

Note: (b) 2000 data are estimates. (1): period 1985-90; (2): period 1981-90; (3): period 1998-2000; (4): period 1994-2000.

**Table A.2.13: Total External Debt to Export Ratio (%)**

Countries	Pre-SADC	Eight Years of SADC Existence									
	Average over 1980-90	Average over 1992-2000	1992	1993	1994	1995	1996	1997	1998	1999	2000(b)
SADC	78.3	132.5	101.5	106.3	154.2	144.1	136.2	130.0	147.0	138.8	134.5
Angola	155.3(1)	244.5	247.3	342.5	342.7	286.9	186.3	183.1	291.3	193.1	127.3
Botswana	29.6	24.9	24.7	26.7	30.1	24.2	21.1	19.6	20.1	28.1	29.3
DRC	315.8	775.3	794.7	871.3	933.2	748.8	716.1	846.2	792.7	683.4	591.5
Lesotho	26.3	94.6	44.9	53.2	71.2	107.4	105.3	93.5	109.5	132.2	134.1
Malawi	352.3	477.8	403.2	537.1	569.1	525.7	440.9	355.2	465.5	453.9	549.7
Mauritius	83.7	71.4	50.5	48.7	63.4	71.8	65.1	90.6	81.0	81.3	90.0
Mozambique	1071.0(2)	1363.7	1417.2	1402.2	1774.0	1600.5	1400.3	1334.6	1440.8	1012.7	891.0
Namibia	NA	9.1(3)	NA	NA	NA	NA	NA	NA	6.6	9.6	11.0
Seychelles	74.2	52.7	66.7	60.2	67.5	57.3	45.8	40.2	48.5	43.1	44.9
South Africa	NA	71.1(4)	NA	NA	NA	69.8	70.8	71.6	66.6	69.2	71.7
Swaziland	52.0	22.7	23.8	20.5	19.4	18.4	17.8	27.4	21.0	29.3	26.4
Tanzania	1243.0	745.5	1202.6	1100.3	846.5	670.8	630.4	542.8	667.5	526.4	521.8
Zambia	454.9	614.0	552.6	589.1	571.6	519.6	621.0	494.0	716.6	771.2	690.4
Zimbabwe	186.5	187.4	218.3	213.1	189.3	181.5	158.4	157.7	182.1	169.4	216.8

Source: World Bank SIMA Database

**Table A.2.14: Southern and Eastern Africa - External Financial Liberalization Indicators**

Countries	Controls of current account transfers		Controls on capital and money market instruments	Controls on liquidation of direct investments	Foreign exchange accounts permitted			Export proceeds repatriation requirements
	On trade related payments	On investment related payments			To residents	To non residents	Accounts in domestic currency convertible into foreign currency	
<i>SADC Countries</i>								
Angola	Yes	Yes	Yes	Prior approval is needed from the MoF	Yes	Yes	No	Yes
Botswana	Yes	Yes, within quantitative limits		No	Yes	Yes	No	All exchange controls abolished on Feb. 99
Burundi	All transfers above 5,000\$ require approval	Joint-stocks companies may transfer 100% of the return of foreign capital and of the shares allocated to foreign directors after payment of taxes. Transfer of rental income is permitted.	Capital transfers abroad by residents require individual authorization	Transfers of foreign capital on which a repatriation guarantee has been granted do not require individual authorization	Yes	Yes	yes	Since Nov, 99, only exports proceeds of coffee, cotton and tea.
Comoros	Yes	Repatriation of dividends and other earnings from non-resident investments is authorized and guaranteed.	Yes, except capital flows between Comoros and France, Monaco, WAEMU and CAEMC	n.a.	Yes, with previous approval	Yes, with previous approval	No	Yes
DRC	Yes	Yes	Yes	Yes	Yes	Yes	Yes, but since June 1999, these accounts cannot be in debit position	Yes
Djibouti	No	No	No	No	Yes	Yes	Yes	No
Egypt	No	No	No	No	Yes	Yes	Balances may be converted through the foreign exchange market	No
Eritrea	Since January 1, 2000, all restrictions on payments for current account are abolished	yes	Yes	No, for investments certified under the Investment Proclamation Law	Yes	Yes	Yes	Yes
Ethiopia	Yes, approval is needed	Yes	Yes	Yes, authorization is required	Exporters of services may open foreign exchange accounts with the Central Bank's approval	Yes, with previous Central Bank's approval	No	Yes
Kenya	No	No	Yes	No	Yes	Yes	Yes	No
Lesotho	No	No	Yes	No	Yes	Yes, with restrictions	Approval is required	Yes
Madagascar	No	No	Yes	Yes	Yes	Yes	No	Yes
Malawi	No with some limits	No, provided the investment is approved and registered	Yes	Repatriation of investments permitted	Yes	Yes, previous approval	No	Yes



Countries	Controls of current account transfers		Controls on capital and money market instruments	Controls on liquidation of direct investments	Foreign exchange accounts permitted			Export proceeds repatriation requirements
	On trade related payments	On investment related payments			To residents	To non residents	Accounts in domestic currency convertible into foreign currency	
		by the RBM		when foreign capital funded the original investment				
<b>Mauritius</b>	No	No	Yes	No	Yes	Yes	Yes	No
<i>COMESA Non-SADC Countries</i>								
<b>Mozambique</b>	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
<b>Namibia</b>	No, up to established limits	Yes	Yes	Yes	Yes	Yes, under certain conditions and previous approval	No	Yes
<b>Rwanda</b>	Yes	Yes	Yes	Yes	Yes, but since Sept. 99, foreign currency withdrawals exceeding certain amounts require supporting documentation		No	Yes
<b>Seychelles</b>	No	No	No	No	Yes, but approval required	Yes	N.a.	Yes
<b>South Africa</b>	No	No, but prior approval is required for the payment of amortization of loans or depreciation of direct investments	Yes	No	Yes	Yes	No	Yes
<b>Sudan</b>	No, except insurance for imports must normally be taken out with local companies	No, except for amortization of payments on foreign loans to residents, that require certification from the Central Bank	No	No	Yes	Yes, with restrictions	Yes	Yes
<b>Swaziland</b>	Yes,	Approval required for interest payments and remittances of projects and dividends.	Yes	No	Yes	Yes, subject to approval	Yes, subject to approval	Yes, except for exports to the SACU countries
<b>Tanzania</b>	Yes	No, provided that all tax obligations have been met.	Yes	Yes	Yes	Yes	No, only for UN-related organizations	Yes
<b>Uganda</b>	No	No	No	No	Yes	Yes	Yes	No
<b>Zambia</b>	No, except for the requirement that no taxes are due	No, except for the requirement that no taxes are due	No	No	Yes	Yes	Yes	No
<b>Zimbabwe</b>	Yes	Yes	Yes, inward capital transfers not controlled, but outward capital transfers are.	No, with few exceptions and for all cases application must be submitted.	Yes	Yes	No, except when purchasing travelers check for holiday travel payment	Yes

Sources: IMF, Annual Report on Exchange Arrangements & Restrictions, 2000

## Eastern and Southern African Countries: Trade Restrictions and Restrictiveness

Table A.2.15: Non-tariff Barriers to Imports in ESA Countries (As of December 1998)

	Quantitative restrictions		Restrictive Licensing Requirements		Import State Trading Monopolies	Other (a)
	Bans	Quotas	For all products	For some products		
<b>COMESA Countries</b>						
Angola	No	No	Yes	Yes	No	No
Burundi	No	No	No	No	No	Yes
Comoros	No	No	No	No	Yes	No
Ethiopia	No	No	No	Yes	Yes	No
Kenya	No	No	No	No	No	No
Madagascar	No	No	No	No	No	No
Malawi	No	No	No	No	No	No
Mauritius	No	No	No	No	Yes	No
Namibia	No	Yes	No	Yes	Yes	No
Rwanda	No	No	No	No	No	No
Seychelles	No	Yes	Yes	...	Yes	No
Swaziland	No	No	No	No	Yes	No
Tanzania	No	No	No	No	Yes	No
Uganda	Yes	No	No	No	No	No
Zambia	No	No	No	No	No	No
Zimbabwe	No	No	No	Yes	Yes	No
<b>Non-COMESA SADC Countries</b>						
Botswana	No	Yes	No	Yes	No	No
Lesotho	No	No	No	No	No	No
Mozambique	No	No	No	No	No	Yes
South Africa	No	No	No	No	No	Yes

Sources: World Bank and IMF staff reports.

(a) Includes countervailing duties, dumping, etc.

Table A.2.16: Non-tariff barriers to Exports in ESA countries (As of December 1998)

	Quantitative restrictions		Licensing (1)	Duties	Marketing Monopolies
	Bans	Quotas			
<b>COMESA Countries</b>					
Angola	No	No	Yes	Yes	No
Burundi	No	No	No	Yes	Yes
Comoros	No	No	No	Yes	No
Ethiopia	No	No	Yes	Yes	No
Kenya	No	No	Yes	No	Yes
Madagascar	No	No	No	No	No
Malawi	No	No	No	No	No
Mauritius	No	No	No	No	No
Namibia	No	No(2)	Yes(3)		No
Rwanda	No	No	No	Yes	No
Seychelles	No	No	No	No	No
Swaziland	No	No	No	Yes	No
Tanzania	No	No	No	No	No
Uganda	Yes	No	No	No	No
Zambia	Yes	No	No	No	No
Zimbabwe	No	Yes	Yes	No	Yes
<b>Non-COMESA SADC Countries</b>					
Botswana	No	No(2)	Yes(3)	No	No
Lesotho	No	No	No (2)	No	No
Mozambique	No	No	No	Yes	No
South Africa	No	No	No	Yes	No

Sources: World Bank and IMF staff reports.

Notes: (1) Only for restrictive (and not for statistics) purposes.

(2) Except for diamonds.

(3) All exports, except to SACU member countries, require a license. Within SACU, textiles and meat products require a license.

**Table A.2.17: Sachs -Warner Classification of Trade Policy, 1980s and 1990s.**

	1980s Overall	Late 1990s Overall
<b>COMESA Countries</b>		
Angola	Open	Closed
Burundi	Closed	Closed
Comoros	...	Closed
Congo Dem. Rep.	Closed	Open
Ethiopia	Closed	Open
Kenya	Closed	Open
Madagascar	...	Open
Malawi	Closed	Open
Mauritius	Open	Open
Namibia	...	Open
Rwanda	...	Open
Seychelles	...	Closed
Swaziland	...	Open
Tanzania	Closed	Open
Uganda	Closed	Open
Zambia	Closed	Open
Zimbabwe	Closed	Closed
<b>Non-COMESA SADC Countries</b>		
Botswana	...	Open
Lesotho	...	Open
Mozambique	Closed	Open
South Africa	Closed	Open

Source: IMF staff's calculations applying the Sachs-Warner Criterion for tariffs and nontariff barriers. According to this criterion, a country is classified as closed if its NTBs covered 40% or more of the value of trade or its average tariff exceeded 40%.

Attachment 2b.7

#### Eastern and Southern Africa Countries: Foreign Investment Flows and Investment Frameworks

**Table A.2.18: Foreign Direct Investment Inflows (US\$ million)**

Groups	Average over 1991-95	Average over 1995-98
SADC	691	3061
South Africa	124	1528
COMESA(1)	658	1494
ECOWAS	887	1631
CFA Zone	269	1155
Sub-Saharan Africa	1807	5583

Sources: IMF and World Bank Staff Estimates. (1): Egypt Excluded.

**Table A.2.19: Foreign Direct Investment Inflows - The 10 Top Recipient Countries<sup>1</sup>**

Countries	FDI (Average 1991-94) US\$ million	Countries	FDI (Average 1995-98) US\$ million
Nigeria	618	South Africa	1528
Angola	395	Nigeria	984
Cameroon	148	Angola	570
DRC	131	Congo, Rep. Of	361
South Africa	124	Equatorial Guinea	314
Ghana	100	Cote d'Ivoire	255
Namibia	85	Zambia	160
Guinea	70	Lesotho	148
Zimbabwe	44	Tanzania	138
Swaziland	38	Namibia	127

Sources: IMF and World Bank Staff Estimates.

Note: <sup>1</sup>Egypt Excluded.

**Table A.2.20: Foreign Direct Investment to GDP Ratio (In percent)**

Countries	Pre-SADC		Eight Years of SADC Existence								
	Average over 1980-90	Average over 1992-99	1992	1993	1994	1995	1996	1997	1998	1999	2000(b)
Angola	1.7(1)	10.7	5.0	5.7	8.1	5.8	7.8	6.4	17.3	29.5	1.8
Botswana	4.2	0.0	-0.3	-7.1	-0.5	0.6	1.8	2.0	2.1	1.7	NA
DRC	0.5	0.2	0	0	0	0	0	0	0.3	1.3	13.5
Lesotho	1.6	23.1	0.3	22.7	29.7	31.6	29.5	28.4	21.9	20.6	3.0
Malawi	0.1	0.8	0	0	0	0	1.2	0.9	1.9	2.2	0.6
Mauritius	0.6	0.2	-0.5	-0.6	0.3	0.7	0.4	0.6	0.0	0.6	NA
Mozambique	0.1	3.2	1.3	1.5	1.5	1.9	2.5	1.8	5.4	9.2	NA
Namibia	NA	3.5	4.2	1.8	3.5	4.9	4.8	2.8	3.3	3.1	4.3
Seychelles	3.7	3.7	-0.7	1.4	3.4	5.2	3.3	8.3	5.2	3.7	0.3
South Africa	-0.2	-0.4	-1.5	-0.2	-0.6	-0.8	-0.2	1.0	-0.9	0.2	2.7
Swaziland	3.5	2.2	5.1	4.5	-0.1	0.8	1.9	2.6	0.8	2.5	NA
Tanzania	NA	1.7	0.3	1.4	1.4	2.0	2.1	2.0	2.0	2.1	4.4
Zambia	NA	3.0	0	0.1	1.2	2.8	3.6	5.3	6.1	5.2	0.2
Zimbabwe	-0.2	1.4	0.2	0.5	0.4	1.4	0.4	1.2	6.4	0.9	NA

Source: World Bank, SIMA, Regional Database and Author's Calculations.

Note: (b): data for 2000 are estimates. (1): period 1985-90.

#### Box A.2.5: Intra-regional Investment

Currently, **intra-regional investments** in SADC are concentrated in the following sectors:

- **Mining**: strong South African presence in Zimbabwe (gold), Zambia (copper and cobalt), Botswana (diamonds), and Namibia (diamonds) and to a lesser extent also in Angola (diamonds); the major South African companies in this field are *Anglo American* and *de Beers* (also a subsidiary of Anglo American);
- **Tourism**: strong South African presence in Zimbabwe, Zambia, Swaziland, Namibia, Lesotho, Mozambique, Botswana and to a lesser extent also in Malawi, Mauritius and Tanzania; the major companies involved in cross-border investments are *Southern Sun* and *Protea Hotels*; there is also a Mauritian presence in Zimbabwe;
- **Transport**: strong South African presence in Mozambique (Maputo Development Corridor);
- **Finance**: strong South African presence in Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe in the banking sector; the same pattern can be discerned in the insurance market, where again South African companies (such as *Old Mutual*) play a decisive role in the region; Zimbabwean banks (Standard Chartered [Zim], Barclays Bank [Zim] and First Banking Corporation of Zimbabwe) are present in Zambia, Tanzania, Botswana, and some other SADC countries;
- **Manufacturing**: strong South African presence in Malawi (textiles), Mozambique (cashew processing, aluminum smelter), Namibia (fisheries), Swaziland (sugar refining), Zambia (breweries) and Zimbabwe (through shares in major holding companies such as *Delta Corporation*);
- **Retail**: strong South African presence in Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe;
- **Telecommunications**: South African presence in Mozambique, Namibia, Lesotho and Swaziland; Zimbabwean presence in Botswana and Zambia;
- **Agriculture and fisheries**: strong South African presence at large-scale level in Namibia (fisheries), Swaziland (sugar) and Zimbabwe (cattle and crop farming) and at small-scale level also in Mozambique and Zambia. Mauritian companies have invested recently in sugar-mills in Tanzania and Mozambique.

**Table A.2.21: Investment regime in Selected SADC Countries**

	Investment Promotion Agencies			
	Name	When and how established	Status and funding	Role in investment process
<b>Angola</b>	Foreign Investment Institute (Instituto de Investimento Estrangeiro – IIE)	1996; Foreign Investment Law	Government created and funded	
<b>Botswana</b>	Trade and Investment Promotion Agency (TIPA)	1984	Under the Ministry of Commerce and Industry; government funded; soon to become an independent statutory body with full autonomy	A specialized agency, soon to be transformed into an independent parastatal; to provide information and assistance to investors and traders
<b>DRC</b>				
<b>Lesotho</b>	Lesotho Investment Promotion Centre (LIPC)	1967	Division of Lesotho National Development Corporation (LNDC, 90% government owned)	Assistance to potential investors in fulfilling requirements for starting a business
<b>Malawi</b>	Malawi Investment Promotion Agency (MIPA)	1991; Investment Promotion Act	Independent statutory body funded by government; board consists of representatives of government and private sectors	Main purpose is to provide a one-stop window facility for investors; sectoral priorities; assists in granting incentives and EPZ status
<b>Mauritius</b>	Mauritius Export Development and Investment Authority (MEDIA)	1984; Mauritius Export Development and Investment Authority Act	Autonomous; government-funded, but increasingly raises own funds (e.g. by charging user fees)	
<b>Mozambique</b>	Investment Promotion Centre (Centro de Promoçao de Investimentos - CPI)	1984; Act of Parliament	Government created and funded	
<b>Namibia</b>	Namibia Investment Centre (NIC)	1990; Foreign Investment Act	Located in the Ministry of Trade and Industry; government funded	Services all investors - domestic and foreign: one stop centre
<b>Seychelles</b>	Seychelles International Business Authority (SIBA)			
<b>Swaziland</b>	Swaziland Investment Promotion Agency (SIPA)	End 1997		Actively seeks partners for new business; assists foreign investors; provides fiscal incentives; antenna for European Union's CDI; development incentives determined by the Minister of Finance
<b>Tanzania</b>	Tanzania Investment Centre (TIC); Zanzibar Investment Promotion Agency (ZIPA)	TIC: Tanzania Investment Act, 1997 (replaced Investment Promotion Centre in 1998); ZIPA: operational since 1989	Independent statutory body funded by government and donors	TIC promotes, coordinates and monitors foreign and local investors; to be a one stop centre
<b>Zambia</b>	Zambia Investment Centre (ZIC)	1993 (Foreign Investment Act)	Independent statutory body; funded by government, donors and own revenue	Promotes, implements, coordinates and facilitates investment programs and policies; provides information on investment climate; identifies and promotes investment opportunities
<b>Zimbabwe</b>	Zimbabwe Investment Centre (ZIC)	1993; Act of Parliament	Independent statutory body; government funded	Approves investments and assists investors in negotiations with Department of Immigration and other agencies

**Investment regime (continued)**

Country	Other investment institutions	Investment incentives	Investment licensing	
			Institutions involved	Arrangements
Angola		5-10 years profit and dividend tax holiday for new investments in interior or in priority zones; exemption from industrial contributions or State taxes for acquisition of industrial sites for a period of up to 2 years if national inputs exceed 60%	Council of Ministers	Investment below US\$5 million automatic
Botswana	Botswana Confederation of Commerce, Industry and Manpower; Botswana Development Corporation	Financial Assistance Policy (FAP): capital grants for jobs created, unskilled labor cost reimbursement, training grants, regional location benefits, assistance for indigenous investors, especially women	Ministry of Industry and Commerce, Department of Geological Survey	Licensing required for manufacturing and trading and mineral prospecting
DRC		Ad hoc arrangements with President		
Lesotho		Skills training grant; serviced plots and premises; equity, loans or loan guarantees to LNDC clients	Registrar of Companies	Registration within one month and after receipt of Certificate of Registration of Investment
Malawi		New investments US\$5-10m: 5 year tax holiday or 15% corporate tax, up to 10 years for large projects; duty-free equipment for horticulture; expenses for 24 months before start-up allowed; 40% investment allowance on new capital expenditure, 20% for used, full rebate on heavy commercial vehicles	Registrar of Companies	Registration with Registrar of Companies only (unless industry involves health hazards or explosives)
Mauritius	Ministerial Committee chaired by Minister of Industry and Commerce issue incentive certificates when required	4 categories of special companies (strategic local, modernization and expansion, industrial building, pioneer) paying lower corporate tax rates (e.g. 15%), no dividends tax for 10-20 years, lower indirect taxes		
Mozambique		Exemption from indirect taxes on equipment, cars and raw materials for first production cycle; significant reductions in corporate and indirect taxes for up to 10 years for new entities; regional tax allowances		All activities in Mozambique are subject to licensing by, depending on the sector, the CPI, Ministry of Finance, Central Bank, Ministry of Justice; or other government agencies and ministries
Namibia	Registrar of Companies; Ministry of Trade and Commerce	50% tax abatement for 5 years, new investment relocation package, concessional loans for industrial projects, grants for prior studies		No license required
Sevchelles				
Swaziland	Swaziland Industrial Development Corporation (first port of call for potential investors); Tibiyo Taka Ngwane; Trade Promotion Unit	Main incentives are fiscal in nature; 5-year tax exemption for new firms manufacturing for export	Ministry of Commerce and Industry; Registrar of Companies	Application for approval at Ministry; registration with Registrar
Tanzania		First-time investors: 5-year tax holiday, then up to 5% reduction on rate, similarly for withholding taxes; discretionary waiving of indirect taxes	TIC has powers to authorize foreign investments	
Zambia	Zambia Privatization Agency	Rural enterprises: 14.3% tax for first 5 years; agriculture: full allowance for land development; other capital: 20% per year or accelerated depreciation; special crop allowances		Licensing by relevant authorities before issuance of Investment Certificate; assistance from ZIC
Zimbabwe	Export Processing Zone Authority (ZIMTRADE)	No border taxes on productive capital equipment; permanent residency for personal investments above certain thresholds; additional incentives for rural growth point projects		ZIC Committee (ZIC and government ministries), except for large projects (Ministry of Finance)

**Investment regime (continued)**

Country	Restrictions on foreign investment	International investment agreements and institutions	International double taxation agreements	Foreign investor access to local loans
<b>Angola</b>	Some areas reserved for nationals	MIGA, ICSID	None	Access for investments in oil and mineral sectors only
<b>Botswana</b>	Joint ventures with Botswana Development Corporation (BDC) encouraged; permission needed for foreign direct investment in locally incorporated companies	MIGA, NY, Paris, WTO, OPIC, bilateral investment treaty (USA)	South Africa, Zambia, UK, Sweden	Access with prior permission of the Bank of Botswana
<b>DRC</b>	Uncertain			
<b>Lesotho</b>	None on foreign direct investment	MIGA, ICSID, NY, Paris, WTO, BITs (Germany, UK)	Mauritius, South Africa, UK, USA	Available, but remittances may be curtailed if local borrowings are excessive
<b>Malawi</b>	None on foreign direct investment	MIGA, ICSID, Paris, WTO, OPIC, BITs (Denmark)	South Africa, Denmark, France, Kenya, Netherlands, Norway, Switzerland, UK	No access at all
<b>Mauritius</b>	None on foreign direct investment	MIGA, ICSID, Paris, WTO, BITs, Article VII of IMF	Botswana, Mozambique, Namibia, South Africa, Swaziland, Zimbabwe and 20 others	Unrestricted access
<b>Mozambique</b>	Areas reserved for nationals; contradiction between general law and investment so that 25% local share is often stipulated as a requirement	MIGA; ICSID; OPIC; WTO; ICC	Mauritius	No restrictions, but credit and financing systems do not correspond to investor needs
<b>Namibia</b>	None	MIGA, ICSID, WTO, OPIC, BITs	Mauritius, South Africa, United Kingdom	Yes, but remittances may be curtailed if local borrowings are "excessive"
<b>Seychelles</b>	Foreign investment is encouraged, but the Seychelles government prefers joint ventures with foreign investors	MIGA, WTO	South Africa, Zimbabwe, negotiations under way with various other countries	
<b>Swaziland</b>	None on foreign direct investment	MIGA, Paris, WTO, ICSID, BITs (Germany, UK)	Mauritius, South Africa, UK	Yes, but remittances may be curtailed if local borrowing is 'excessive'
<b>Tanzania</b>		MIGA, ICSID, NY, Paris, WTO, BITs (Germany, UK, Netherlands, Switzerland)	Zambia, Canada, Denmark, Finland, India, Italy, United Kingdom, Norway, Sweden; a further 9 treaties being negotiated	Borrowing of funds from domestic banks by non-residents allowed
<b>Zambia</b>	No restrictions on foreign exchange dealing and no limitations on the import or export of foreign exchange in Zambia	MIGA, Paris, WTO, ICSID, bilateral investment treaties with Germany and Switzerland	Botswana, South Africa, Tanzania and 18 others	
<b>Zimbabwe</b>	In reserved areas (mainly services) up to 25% allowed in joint ventures with local firms	MIGA, NY, Paris, WTO, UNCITRAL, OPIC, BITs (Germany, Portugal, United Kingdom)	South Africa, Mauritius and 9 others	Restrictions on local borrowing by foreign investors removed in 1995

### Investment regime continued

Country	Main Investment and Business Legislation and/or Policy Statements	Enforcement of contracts and property rights
<b>Angola</b>	Foreign Investment Law 15/94 (excludes petroleum sector investment, which has separate provisions)	Code Civil; "law habit" is absent
<b>Botswana</b>	Financial Assistance Policy 1992; Companies Act; Factories Act; Stock Exchange Act 1994; Stock Market Act 1995; Export Credit Re-Insurance Act 1996; Collective Investments Units Bill	Roman Dutch legal system
<b>DRC</b>	Code des Investissements, Act 88-028 of 1986, partly replaced by new stringent guidelines for foreign investment	Uncertain legal system based on Belgian civil law and tribal law;; lack of 'law habit', problems with property rights and enforcement of contracts
<b>Lesotho</b>	Pioneer Industries Encouragement Order 1987 and Regulations; Banking Act 1989; Industrial Licensing Act 1969; Trading Enterprises Order 1987 and Regulations; Companies Act 1984	Roman Dutch legal system
<b>Malawi</b>	Companies Act 1984; Banking Act 1989; Industrial Development Act 1967; Investment Promotion Act 1991; Capital Market Development Act 1990	English Common Law
<b>Mauritius</b>	Offshore Business Activities Act (1992), Freeport Act (1992), Offshore Trust (1992), Industrial Expansion Act (1993), International Companies Act (1993)	Procedural and commercial purposes: English Common Law; substantive issues: Code Civil
<b>Mozambique</b>	Law of Investment 3/1993; Mines Law 2/1986; Code of Fiscal Benefits for Investment 12/1993; Petroleum Law 3/1981; Law 15/1991 (Privatization); Decree 27/1991 (Enterprise restructuring)	Code Civil: lack of 'law habit', problems with property rights and enforcement of contracts
<b>Namibia</b>	Foreign Investment Act 1990; EPZ Act 1995; Stock Exchange Control Act 1985; Special Incentives for Manufacturers and Exporters 1995; Export Incentives 1994; Companies Act 1973; Close Corporation Act 1988	Roman Dutch legal system
<b>Seychelles</b>	National Development Plan (1985), Second National Development Plan (1990), Environmental Management Plan (1990), Investment Promotion Act (1994), Seychelles International Business Authority (1995), Economic Development Act (1995), Economic Citizenship Program (1996)	English common law, Napoleonic Code
<b>Swaziland</b>	Investment Code (1997), Companies Act, Financial Institutions Order (1975), Stock Exchange Act	Roman Dutch legal system
<b>Tanzania</b>	Tanzania Investment Act 1997; Zanzibar Investment Protection Act 1986; Petroleum (Exploration and Production) Act 1980; Banking and Financial Institutions Act 1991; Mining Act 1979; National Environment Act 1983; Income Tax Act 1973; Patent Act 1987; Trade and Services Marks Act 1987	English common law; only leasehold title to land and problems with "law habit"
<b>Zambia</b>	Investment Act 1993; Privatization Act 1992; Companies Act 1994; Mines and Minerals Act 1995; Lands Act 1995; Banking and Financial Services Act	English Common Law
<b>Zimbabwe</b>	Promotion of Investment: Policy and Regulations 1989; Zimbabwe EPZ Act 1994; Ministry of Finance Measures 1993; Companies Act 1981	Roman Dutch legal system



**Investment Regime (continued)**

Country	Export Provisions (customs, financing etc)	EPZ incentives	Export incentives outside EPZ
<b>Angola</b>	Export licenses & restrictions	No EPZ	Exemption from customs duties for export products in automatic exemption list; 50% exemption from customs duty on certain equipment and primary products; full exemption for certain products destined for development priority areas
<b>Botswana</b>	Duty drawback, export credit guarantee	No EPZ	No surcharge on machinery used for export production
<b>DRC</b>		No EPZ	
<b>Lesotho</b>	Manufacturers' rebate, comprehensive trade financing facilities	No EPZ	Central Export Development Fund
<b>Malawi</b>	Duty drawback, manufacturing in bond, EPZs	Low corporate tax (15%); no withholding tax on dividends; no duty, excise tax or VAT on inputs; transport tax allowance (25% of international costs); duty drawback on imports of raw materials, etc for manufacturing in bond	Manufacturing in bond; 12% of export revenues as tax allowance; transport tax allowance (25% of costs); no duties, surtax or VAT
<b>Mauritius</b>	EPZ, ESZ, offshore business, freeport, 4 special enterprise categories	Low corporate tax (15%), dividends exempted from taxation for 20 years, no indirect taxes, preferential rates on power and financing, complete exemption from taxes for offshore business and at freeport	Not applicable
<b>Mozambique</b>	Open environment in industrial free zones (IFZs); elsewhere 35% of export receipts must be surrendered	Full indirect tax exemption; no dividend tax for 10 years	Exemption from indirect taxes on inputs until recovery of investment value (maximum 5 years)
<b>Namibia</b>	EPZs	Exemption from corporate tax and indirect taxes; liberal labor and customs provisions; reimbursement of 75% of training costs; guaranteed convertibility	Tax exemption on 80% of profits from manufactured exports; export promotion grants (50% of direct costs); full retention of export receipts from "status" investments
<b>Seychelles</b>	International Trade Zone licenses for freeport & manufacturing operations	International Trade Zone (ITZ) incentives: exemption from business tax, social security tax, pension contributions, withholding tax and trade and exchange controls	Exemption from trade taxes; business tax rebate; business tax deductions for expenses in research, marketing, export promotion, traveling and entertainment; accelerated depreciation of capital investments
<b>Swaziland</b>	Export financing and credit guarantees available	Not applicable	
<b>Tanzania</b>	Duty drawback (since 1986); EPZ in Zanzibar	10 years corporate tax holiday; duty exemptions	100% retention of foreign exchange proceeds
<b>Zambia</b>		No EPZ	Special incentives to non-traditional exports, tourism (foreign exchange earnings 25%+ of turnover) and agro-based exports
<b>Zimbabwe</b>	Duty drawback, manufacture in bond, EPZs	5-year tax holiday, 15% corporate tax thereafter; exemption from indirect taxes (including fringe taxes for employees of EPZ companies); new companies which will export >80% can apply for EPZ status	Double deductions of export market development costs; right to borrow abroad